Dialog Group (DLG MK)

Storage To Remain Resilient, Upstream Will Surprise

BUY (Maintained)	
Share Price	RM2.29
Target Price	RM2.70
Upside	+15.2%

Highlights

- **Storage will continue to anchor results.** Reiterated by Vopak's latest guidance as of 1Q26, Vopak believes long-term storage fundamentals will remain strong. Storage tanks will be increasingly considered as strategic assets driven by energy security, despite heightened volatility in the short term. Aligned with Vopak, we continue to see DLG benefitting from storage multi-cycles highs, but with further potential of expanding/diversifying into new storage terminals, even though we do not see further material upside in storage rates.
- **Upstream may surprise on the upside by 2QFY27 results.** DLG's upstream division had always been underappreciated also partly owing to its disclosure. We believe this will improve transparency as its upstream earnings mix will grow. Petronas claims Baram Junior Cluster (BJC) will be the first in Petronas' Discovered Resource Opportunities (DRO) to achieve first production by Oct/Nov 26. This guidance suggests early delivery vs DLG's 2027 target, moreover we think the positive earnings surprise may be material if this coincides with elevated oil prices under a prolonged US-Iran war. Retain BUY, and target price of RM2.70

Analysis

- **Mid-stream/storage hubs to remain at multi-cycle highs.** Royal Vopak charted high 91% utilisation in 1Q26 (released on 22 Apr 26). Vopak thinks the US-Iran conflict has introduced variables ranging from rebalancing of trade routes emerging to substitute for the loss of product volume from the Middle East, to heightened security and business continuity risks for its customers. These may boost long-term storage demand (energy security), but also uncertainties in final investment decisions of new storage terminals/growth projects. It has a resilient business model premised on a global network of diversified storage terminals, save for its Fujairah hub which faced reduced product flows due to its strategic positioning outside of the Straits of Hormuz
- **Vopak acknowledges heighted volatility**. The MENA storage terminals recorded a 6% qoq decline in utilisation in 1Q26, but the reduction was 8% in Mar 26 alone. This included the impact of out-of-service capacity in Fujairah that was damaged and requires repairs. However (because it is still too early to quantify) Vopak denies any coherent direction that shows immediate flows from Fujairah to other hubs. Delays in new project sanctioning and heightened force majeure risks are new short-term risks.

Key Financials

Year to 30 Jun (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	3,152	2,502	2,158	2,171	2,302
EBITDA	788	550	674	676	778
Operating profit	455	220	305	279	358
Net profit (rep./act.)	580	304	518	542	577
Net profit (adj.)	595	456	518	542	577
EPS	9.5	7.2	8.2	8.6	9.2
PE	19.8	25.8	22.7	21.8	20.1
P/B	2.0	2.1	1.9	1.8	1.7
EV/EBITDA	11.3	15.7	16.0	15.2	14.6
Dividend yield	2.1	1.5	1.8	19	2.0
Net margin	18.4	12.1	24.0	24.9	21.3
Net debt/(cash) to equity	2.2	n.m.	n.m.	0.5	1.7
Interest cover	12.2	11.3	13.5	12.5	12.8
ROE	13.9	7.5	12.2	12.3	10.8
Consensus net profit	-	-	539	580	590
UOBKH/Consensus (x)	-	-	0.96	0.93	0.98

Source: Dialog Berhad, Bloomberg, UOB Kay Hian

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Stock Data

GICS Sector	Energy
Bloomberg ticker	DLG MK
Shares issued (m)	5,642.6
Market cap (RMm)	12,929.0
Market cap (US$m)	3,216.0
3-mth avg daily t'over (US$m)	7.4

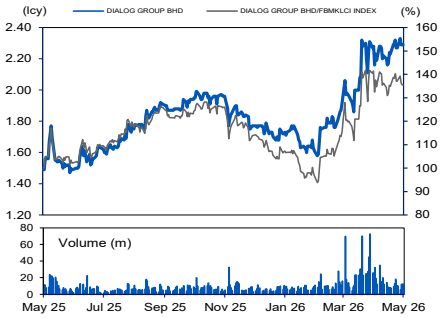
Price Performance (%)

52-week high/low				RM2.36/RM1.45
1mth	3mth	6mth	1yr	YTD
0.9	10.5	16.8	60.4	36.3

Major Shareholders

	%
EPF	21.9
Ngau Boon Keat	18.3
Azam Utama	7.6

Price Chart



Source: Bloomberg

Company Description

Dialog provides engineering, procurement, construction and commissioning (EPCC) services and plant maintenance services. The company also owns O&G tank terminals, while marketing specialty chemicals and equipment. Dialog has joint operatorship of 3 storage terminals with Royal Vopak (Vopak), which is the world's largest independent storage player. The terminals are Kertih, Pengerang Independent Terminals SB (PITSB), and Pengerang Terminals (Two) SB (PT2SB)

- **DLG's fundamentals remain intact**…. We view no structural shifts happening in the Greater Singapore onshore crude storage industry, which is already enjoying multi-cycle highs whereby utilisation is over 90% and monthly storage rates averaged S$6-7. During the early weeks of the US-Iran war, it was reported that Singapore fuel traders held back purchases of fuel due to high price volatility. However, storage fundamentals will not change, as prior to the war, the energy security theme had already revived government's considerations to safeguard fuel supplies. Global commercial oil storage grew from 923m bbl to 1.07b bbl in 2025. China sets the lead accounting for 31% of global storage, followed by the US at 11% and Japan at 8%. Separately for DLG, the exit of its Jubail Supply Base business is a blessing in disguise, though DLG is still present in the United Arab Emirates (we assume any revenue impact is negligible).
- **…with new opportunities emerging as catalyst.** Although management is not actively evaluating or seeking out new storage projects, we view this is an opportune time for DLG to secure and expand its portfolio of storage, not only in Pengerang but also outside of Malaysia (to improve diversification; a business model proven successful by Vopak). The energy security theme had pushed oil majors like Adnoc to lease fuel oil storage in Singapore for the first time, early in the year. A more recent example involves New Zealand considering securing fuel storage in Malaysia and Singapore.
- **Upstream business will see greater transparency…** DLG had been on a learning curve in several producing field concessions, prior to a string of new small field asset (SFA) production sharing contracts (PSC) secured lately. The upstream division's financials were never separately disclosed, and we understand the aggregate net profit contribution has never reached a 30% mix. This will change soon as its upstream earnings mix grows alongside its volume, and we believe there are additional financial disclosure provisions by the Securities Commission if the mineral or oil and gas operations are material, contributing over 25% of a listed company's assets, costs or profit.
- **…and is very underappreciated for 2026 horizon**. The D35 PSC in 2024 recorded equity production of 1.71 mmboe (4,700 boepd) for Roc Oil, or 3,100 boepd for DLG. The team achieved outstanding innovation during the 2025 MLNG planned maintenance period, by over-producing additional 4% (+350 bpd) of annual production during the two-week shutdown, a tremendous feat under zero gas export conditions. More importantly, we look forward to potential early production from the D35 PSC (see RHS table).

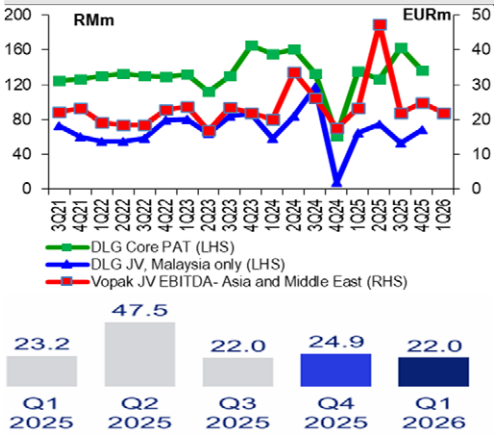
Valuation/Recommendation

- **Maintain BUY and target price of RM2.70.** While it enjoyed the earnings recovery for downstream operations, and a stable base for storage (at multi-cycle highs), we think there are still upside catalysts to factor in: a) potential upside surprise of its upstream business (short-term view), and b) potential storage expansion catalysts driven by heightened energy security demand. As DLG aims for a balanced portfolio from upstream to downstream operations, our positive short-term view entirely hinges on oil prices remaining elevated in a prolonged US-Iran conflict, coinciding with early production startup of BJC (Oct/Nov 26).

Earnings Revision/Risk

- **Retain earnings forecast; 3QFY26 results likely to be released on 13 May 26.** We may upgrade our forecasts pending the development of the Salbiah WHP for Baram Junior Cluster (1QFY27 results).
- A key long-term risk is demand and consumption erosion due to high transportation and energy costs. Another consultant, Kpler views that inventories will likely remain tight despite the aforementioned demand destruction, as the current supply losses are primarily offset by constrained adjustments ie supply destruction, although this is still difficult to be pinpointed.

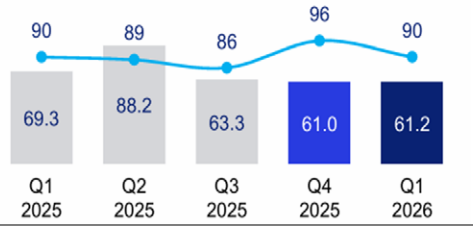
Vopak's MENA* JV Terminals EBITDA Generation In Comparison To DLG**



*Note: Vopak has approximately 22 JV terminals in Middle East and Asia (MENA) region. out of which 3 are in Malaysia.
** Note: Vopak's disclosure (in bar chart) is EBITDA on gross (100% stake) basis. For 2Q25 (or 4QFY25 for Dialog), Vopak identified €21.7m exceptional gains, being the final compensation representing commercial resolution for PT2SB

Source: DLG, Royal Vopak Results Presentations

Vopak: MENA Terminals' Utilisation



Note: Line graph is utilisation (%). Bar chart is EBITDA (€m)

Source: Vopak

DLG's Upstream Portfolio

Producing Fields:	
Bayan Oilfield Services Contract	Services Contractor
D35, D21 and J4 Production Sharing Contract	Equity Interest
L53/48 Concessionaire and Operator	Operator
Cendramas PSC	Equity Interest
In Progress:	
Baram Junior Cluster SFA PSC (Development Phase)	Operator
RAJA Cluster SFA PSC (Pre-Development Phase – Feasibility Studies)	Operator
Mutiara Cluster SFA PSC (Pre-Development Phase – Feasibility Studies)	Operator

Source: Dialog

Baram Junior Cluster (BJC) Developments

i) Petronas in Jan 25 approved Dialog's $235m field development and abandonment plan (FDAP) for its Baram Junior Cluster small field asset (BJC SFA)
ii) BJC hosts the Salbiah, Bario, Betty Timur, Fatimah, Hasnah and Lembuk fields.
iii) Between 4 Aug and 15 Oct 25, Dialog performed host tie-in activities for its Salbiah drilling platform dubbed SLDP-A to the Petronas Carigali-operated Baronia central processing platform B (BNCPP-B)
iv) The Salbiah Wellhead Platform (WHP) jacket and topside achieved loadout and sailaway by Mar 26 (ie on target), from Brooke Sejingkat Fabrication Yard
v) The WHP completed a phase of its installation and hook up and commissioning by Apr 26
vi) Petronas' updated first production is targeted for Oct/Nov 26, earlier vs DLG's 2027 guidance. Production is guided to be 70-200mmscfd, or 12,000-35,000 boepd (net to DLG; 8,000-25,000 boepd; this is materially larger vs D35 PSC which is 3,100 boepd net to DLG.

Source: Dialog

Profit & Loss

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Net turnover	2,502	2,158	2,171	2,302
EBITDA	550	674	676	778
Deprec. & amort.	329	370	397	420
EBIT	220	305	279	358
Total other non-operating income	n.a.	n.a.	n.a.	n.a.
Associate contributions	293	319	382	253
Net interest income/(expense)	(49)	(50)	(54)	(61)
Pre-tax profit	376	574	606	549
Tax	(66)	(40)	(42)	(38)
Minorities	(6)	(15)	(22)	(20)
Net profit	304	518	542	491

Balance Sheet

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Fixed assets	2,644	2,862	3,074	3,253
Other LT assets	2,522	2,822	3,122	3,375
Cash/ST investment	1,670	1,755	1,884	2,032
Other current assets	483	417	419	445
Total assets	8,687	8,886	9,438	10,105
ST debt	861	1,175	1,323	1,482
Other current liabilities	809	739	758	781
LT debt	861	1,175	1,323	1,482
Other LT liabilities	21	21	21	21
Shareholders' equity	5,741	6,052	6,377	6,672
Minority interest	502	524	520	638

Cash Flow

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Operating	1,187	1,342	1,260	1,383
Pre-tax profit	376	574	606	549606
Tax	(80)	(40)	(42)	(42)
Deprec. & amort.	329	370	397	397
Working capital changes	273	20	15	(4)
Other operating cashflows	119	120	124	131
Investing	(479)	(800)	(800)	(753)
Capex (growth)	(118)	(250)	(250)	(250)
Investments	(359)	(300)	(300)	(253)
Others	(2)	(250)	(250)	(250)
Financing	(418)	(157)	(171)	(157)
Proceeds from borrowings	(76)	250	250	250
Loan repayment	(49)	(50)	(54)	(61)
Others/interest paid	(293)	(357)	(367)	(347)
Net cash inflow (outflow)	120	86	129	148
Beginning cash & cash equivalent	1,572	1,669	1,755	1,884
Changes due to forex impact	(22)	0	0	0
Ending cash & cash equivalent	1,670	1,755	1,884	2,032

Key Metrics

Year to 30 Jun (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	22.0	31.2	31.1	33.8
Pre-tax margin	15.0	26.6	27.9	23.9
Net margin	12.1	24.0	24.9	21.3
ROA	4.7	8.0	8.0	6.9
ROE	11.2	12.2	12.3	10.8
Growth				
Turnover	(1.3)	(14.9)	(14.4)	(9.2)
EBITDA	56.3	91.8	92.3	121.3
Pre-tax profit	1.9	55.6	64.4	49.0
Net profit	3.0	75.6	83.6	66.6
Net profit (adj.)	57.9	79.4	87.5	70.1
EPS	57.9	79.4	87.5	70.1
Leverage				
Debt to total capital	25.4	25.9	27.7	29.3
Debt to equity	27.6	28.1	30.0	32.1
Net debt/(cash) to equity	-	-	0.5	1.7
Interest cover (x)	11.3	13.5	12.5	12.8

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